

Annual Report **FIRST NATIONAL STORES INC.**

year ending

April 1st 1933

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FIRST NATIONAL STORES INC.

Officers

AUGUSTUS F. GOODWIN, *Chairman*

ARTHUR O'KEEFFE, *President*

CHARLES F. ADAMS, *Treasurer*

JAMES C. DUANE	<i>Vice-President</i>
MARTIN CURRY	<i>Vice-President</i>
BERNARD F. MCGOLDRICK	<i>Vice-President</i>
MORRIS JOSELOFF	<i>Vice-President</i>
RALPH F. BURKARD	<i>Assistant Treasurer</i>
ARTHUR O'KEEFFE	<i>Clerk</i>



Directors

CHARLES F. ADAMS	MORRIS JOSELOFF
CHARLES H. BURGER	SAMUEL JOSELOFF
RALPH F. BURKARD	JOHN L. MACNEIL
MARTIN CURRY	BERNARD F. MCGOLDRICK
ARTHUR E. DORR	JOHN L. MCHENRY
JAMES C. DUANE	CHARLES E. MERRILL
AUGUSTUS F. GOODWIN	ARTHUR O'KEEFFE
ROBERT F. IRWIN	ROLAND C. POWERS

NATHANIEL E. WHITTEMORE

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

Somerville, Mass., June 1, 1933.

On behalf of your directors, the annual report of your Company for the year ending April 1, 1933 is herewith submitted for your consideration. As in previous years, the balance sheet, statement of earnings and the surplus account have been prepared and signed by independent auditors, Messrs. Price, Waterhouse & Co. There has been no change in your Company's established practice of bookkeeping and accounting and the figures given in this report are comparable to those submitted last year and in recent previous years.

This report is presented so that stockholders will receive the important and salient facts and figures permitting them to have a comprehensive understanding of the year's operations.

During the past year, your officers and directors have given close attention and activity to maintaining sales; improving quality, service and personnel; and reducing operating expenses.

As a result of the year's operations, working capital and surplus were increased, also the ratio of current assets to liabilities was improved. The balance sheet submits evidence of the continued strength and stability of your Company's financial position. Your directors for some years have maintained a conservative policy of dividend distribution and the investment of undistributed earnings plus reserves, in the expansion of our business, has been a factor in maintaining the capacity of your Company's present earnings.

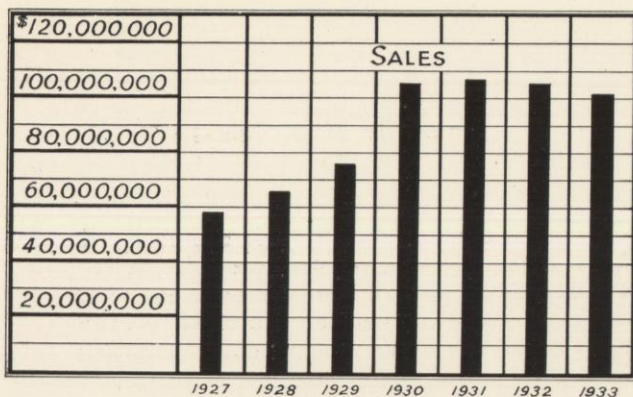
The following condensed operating statement of the fiscal year ending April 1, 1933 is comparable with the operations of the year ending April 2, 1932.

	For the Fiscal Year Ending	
	<i>April 1, 1933</i>	<i>April 2, 1932</i>
Retail Store Sales	\$100,892,947	\$107,634,383
Net Profits after Taxes, Depreciation and all Charges and available for Dividends	\$4,220,099	\$4,825,611
Earnings per share of Common Stock after Pre- ferred Dividends; (on shares outstanding at end of year)	\$4.78	\$5.52
	As of	
	<i>April 1, 1933</i>	<i>April 2, 1932</i>
Net Working Capital or Net Quick Assets	\$10,394,720	\$9,518,229
Fixed or Property Assets	\$12,332,552	\$12,238,608
Earned Surplus	\$11,054,489	\$9,411,328
Stores and Markets Operating	2,705	2,546

The graphic comparative charts on the following page, into which have been translated the operations for the past seven years, include the important exhibits of operations and balance sheet.

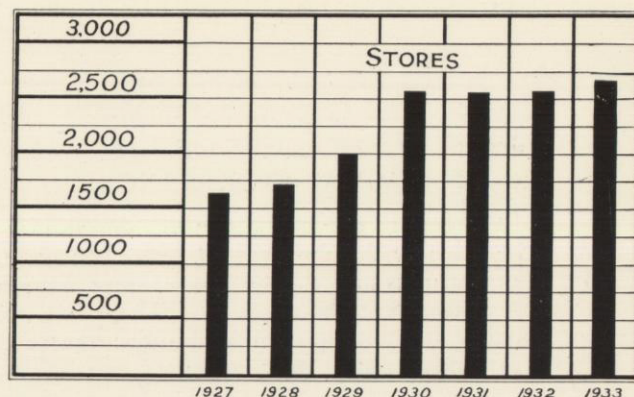
It has been and is the policy of your officials to immediately pass along to consumers lower prices when the cost of commodities is lower, irrespective of stock on hand in our warehouses or in our stores — thus a considerable commodity loss in the past year has been absorbed in operations. Inventories as of April 1, 1933 were taken at cost or market price (whichever were lower) so that all inventory depreciation has been deducted, and currently we are enjoying the benefits of a stabilized or increasing commodity price basis.

Figures by the Massachusetts Commission on the Necessaries of Life indicate that there has been a drop of 44% in the family food budget from August 1929 to March 1933. Retail food prices as of April 1, 1933 as compared to those of April 1, 1932 have shown a decrease of 13.75% in the figures given by the Massachusetts Food Index Number. With a decrease in average weekly dollar sales for the past year of 4.50% compared to a decrease of 13.75% in retail prices, it is evident that retail sales as measured by tonnage have shown an increase of approximately 9.25%; and as we assume the per capita consumption is less rather than more, it indicates that the number of customers which our Company now serves has been considerably increased.



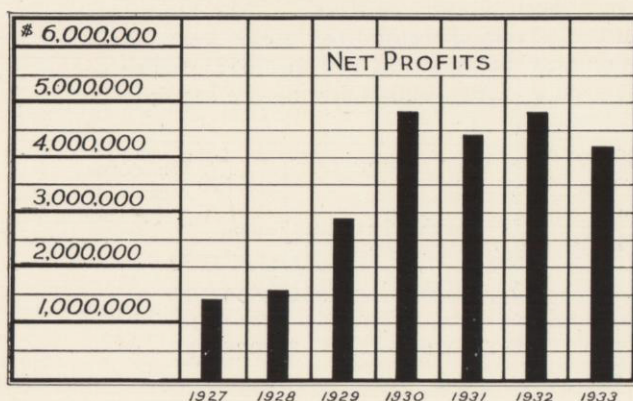
Retail Stores Sales Fiscal Years

1927	\$59,038,304	1930	\$107,635,216
1928	64,445,962	1931	108,196,686
1929	75,884,639	1932	107,634,383
1933	\$100,892,947		



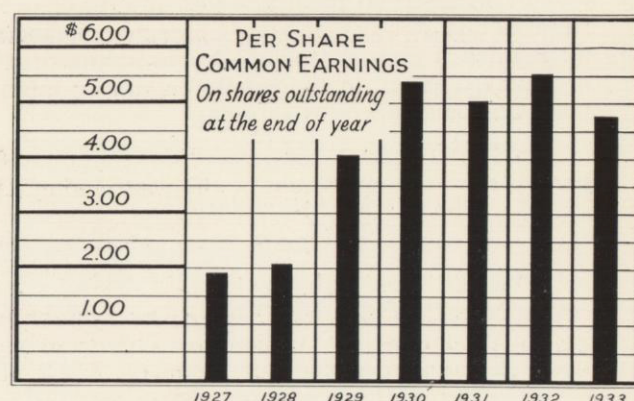
Stores Fiscal Years

1927	1681	1930	2549
1928	1717	1931	2548
1929	2002	1932	2546
1933	2705		



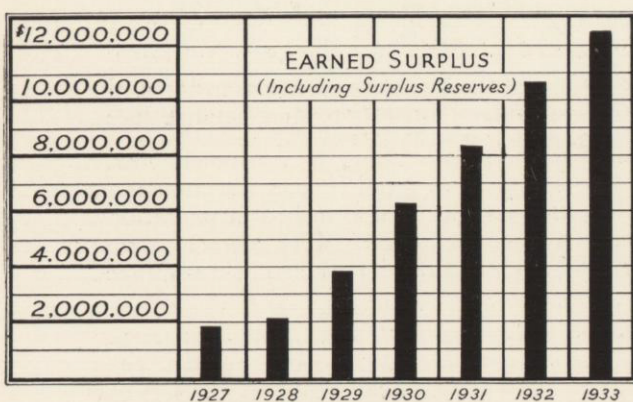
Net Profits Fiscal Years

1927	\$1,492,193	1930	\$4,773,446
1928	1,593,358	1931	4,479,108
1929	2,904,884	1932	4,825,611
1933	\$4,220,099		



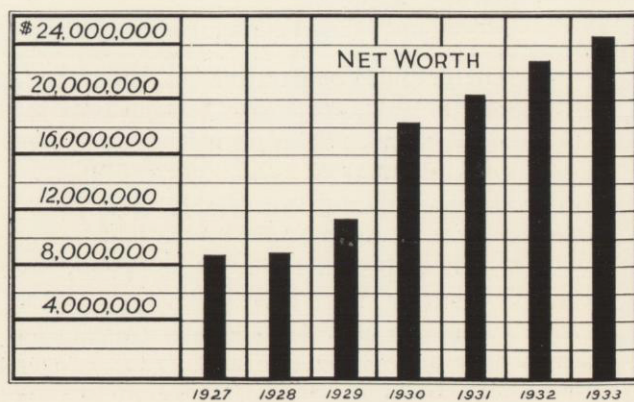
Per Share Common Fiscal Years

1927	\$1.92	1930	\$5.39
1928	2.09	1931	5.03
1929	4.07	1932	5.52
1933	\$4.78		



Surplus (Including Surplus Reserves) Fiscal Years

1927	\$1,996,375	1930	\$6,369,726
1928	2,238,303	1931	8,371,910
1929	3,987,782	1932	10,816,321
1933	\$12,666,672		



Net Worth Fiscal Years

1927	\$8,723,782	1930	\$18,347,148
1928	8,965,710	1931	20,349,333
1929	11,724,410	1932	22,793,743
1933	\$24,644,094		

Your executives have endeavored to reduce operating expenses as far as practical to meet decreasing dollar sales, due to lowered retail prices. This has been done by securing greater efficiency per man and cutting various operating costs.

A most essential industry is the distribution of foods; and figures presented by Massachusetts Commission on the Necessaries of Life indicate that 37.6% of the cost of living is spent in the purchase of food — thus it is the largest single business in the country or in the world, and it would, therefore, seem that chain grocery stores would, when ably directed and managed, continue to hold and improve their position in the communities they serve. U. S. Department of Commerce — Census Report — estimates that chains operate 10% of the food stores in the country and other authorities estimate that chains do approximately 30% of the food business in dollars.

YOUR COMPANY'S STORES AND MARKETS

Your Company had in operation on	<i>April 1, 1933</i>	<i>April 1, 1932</i>
Grocery Stores	2,308	2,205
Markets or Combination Grocery and Meat Stores	397	341
Total Grocery Stores and Markets.....	2,705	2,546

In August, 1932, we acquired 277 stores from the Cloverdale Company. All of these stores were located in New England. This purchase was for cash (except for a note for \$50,000 payable August 1, 1933). Operating for the most part in territory where our stores were not fully represented, these stores make a valuable addition to our company and give us the means of a more thorough distribution throughout New England.

Therefore, this exhibit does not represent the complete story of your Company's store operating activities, for it has been and is our policy to combine existing stores with larger and new stores, or modern markets, which promise greater sales and profits.

DEPRECIATION CHARGES AND MAINTENANCE

The sum of \$1,014,511 (as compared with \$906,383 for the previous year) was deducted from the operating profits, which covers depreciation on all plants, buildings, equipment, machinery, factories, trucks, automobiles and all other tangible assets, susceptible to physical depreciation. In view of the amounts at which these assets are carried on the books of your Company and the yearly rates of depreciation used — your directors consider quite adequate the depreciation charge to income. It is the accounting practice of your Company to carry all such tangible fixed assets at actual cost, against which is charged a yearly sum to depreciation based on life and obsolescence. In addition to such depreciation charges, \$636,286 of maintenance and repair charges have been absorbed this year in current operating expense, as compared with \$564,005 for the previous year.

The question might properly arise in the minds of the stockholders as to whether or not the reserves now established for depreciation of our Fixed Assets are sufficient to reflect the reduction in actual values. Many corporations are writing down Fixed Assets and charging such write-offs to surplus; and in some cases by maintaining the same annual rates of depreciation, annual depreciation charges are decreased and operating profits increased. It has been the definite policy of your Company to keep all warehouses, manufacturing plants and stores in a high degree of maintenance and upkeep, and we have no warehouses nor manufacturing plants not in actual use. And while it is possible that, due to the present sub-normal economic conditions, we could replace certain of our fixed assets at lower than our present book values, it is the belief of your directors that conservatism is best served by continuing our present policy.

PUBLIC RELATIONS

It is fully appreciated by your executives and operating personnel that the success of your Company depends upon their ability to interpret and serve the needs of the consuming public effectively, and an understanding by the public of our honest intention and purpose to serve them. Your Company keenly appreciates the importance of its responsibility to the consumers, and every contemplated action is viewed from the standpoint of public interest and acceptance.

First National Stores Inc. benefit and are of value to the communities they serve. We encourage local civic, church and social interest by our managers. A welfare unemployment plan has been in operation for almost two years for the purpose of raising a substantial monthly sum, which is jointly subscribed to by employees and the Company, and the money so raised is distributed in over 500 communities throughout New England in a proportion roughly based upon population and pro rata business done. It is our desire that every store manager occupy the same relative position in every community that a substantial owner of a single store does.

During the recent Banking Moratorium, your officials fully realized the responsibility your company should assume in looking after its customers in the communities it serves and, therefore, payroll and personal checks on closed banks were accepted from customers. Municipalities and towns were given credit and everything was done during those trying times to distribute food to the Company's worthy customers, who temporarily did not have ready cash.

SPECIAL TAXATION

Chain Stores, as an industry, are already bearing more than their full share of the burden of Taxation. Accurate and fair surveys taken in New England States prove that your Company pays twice the local per store tax that the Independent Grocer pays. In Massachusetts, the State Taxation set-up is different from other states. The unincorporated Independent Grocer pays locally on merchandise and fixtures and the incorporated Chain by an excise tax to the State. Five-sixths of this State Tax is paid to Cities and Towns — with the result that your Company pays twice as great a per store tax as the average Independent Grocer pays. It is to the interest of every Stockholder to continuously and actively express his or her opinion to those who represent them, in protest against any discriminatory Chain Store Taxation.

DIVIDENDS PAID

During the year regular dividends of \$7.00 per share were paid on the Company's 7% Preferred Stock outstanding; and \$2.50 per share for the year on the Company's Common Stock outstanding. This permitted an addition to surplus of undistributed earnings of \$1,643,162, which sum was more than sufficient to finance the normal expansion of the year as represented by the gross addition of \$815,294 to fixed property assets.

Net profits amounted to \$84.40 per share on 7% Preferred stock, and Common dividends paid were slightly over one-half of the net profits available for Common dividend. In the last four years Common dividends paid have been less than one-half of the net profit applicable to outstanding Common stock, and the undistributed profits have provided funds for plant, market and store investment, which has improved operating efficiency and increased sales — thus helping to maintain the net income of your Company.

FINANCIAL CONDITION

The balance sheet as of April 1, 1933 as compared to April 2, 1932 shows that working capital as represented by the difference between current assets and current liabilities has increased

.....	\$876,491 to \$10,394,720
The ratio of current assets to current liabilities increased from	3.23 to 1 to 3.46 to 1
Total assets have increased.....	\$857,745 to \$28,855,508
And the surplus account has increased.....	\$1,643,162 to \$11,054,489

Your Company owes nothing to banks and was not a borrower during the year.

BONDS RETIRED BY YOUR COMPANY

Shortly after the merger of your Company in 1926, a bond issue amounting to \$1,500,000 secured by a first mortgage on the Company's plant at Somerville, was sold to the public. Up to April 2, 1932 there were purchased and retired \$572,000 of these bonds. On April 1, 1933 your Company retired the balance amounting to \$928,000. Your Company now is entirely free from bonded and mortgage debt — with an interest saving of \$75,000 per year.

CONTINGENT RESERVE

The only charge to contingent reserve for the year is the sum of \$50,000 to provide for estimated loss in closed banks. This sum added to a like charge of \$55,000 for the year ending April 2, 1932 has resulted in a total reserve against estimated loss in closed banks of \$105,000.

Your directors feel that this extraordinary charge is a just and proper one and is the only one against contingent reserve.

I regret to report the death of Mr. Charles H. Farnsworth on February 11, 1933. Mr. Farnsworth was born on January 10, 1857 and died at his home in Brookline. Associated with the M. O'Keeffe Company, Mr. Farnsworth was a great factor in the merger that resulted in the formation of the First National Stores Inc. Upon the death of Mr. Michael O'Keeffe, the Company's first President, Mr. Farnsworth became the President of your Company.

Mr. Arthur O'Keeffe, the oldest son of Mr. Michael O'Keeffe, was elected President to succeed Mr. Farnsworth.

CONCLUSION

It is particularly appropriate at this time to acknowledge the unusual efforts, ability and loyalty given by the executives and personnel of your Company in maintaining the business and profitable operations for the past year and previous depression years.

It is the hope of your directors that stockholders will view this report with satisfaction, considering that general business and commodity prices declined steadily during the past year.

Accompanying this report is a notice of the Annual Meeting of Stockholders. Your committee will appreciate an early receipt of executed proxies from Common stockholders, which will facilitate checking and listing.

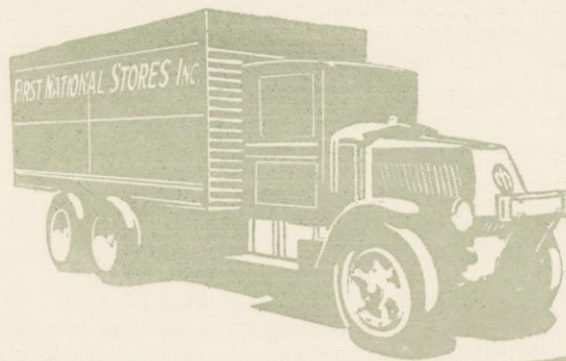
BY ORDER OF THE BOARD OF DIRECTORS
AUGUSTUS F. GOODWIN,
Chairman

FIRST NATIONAL

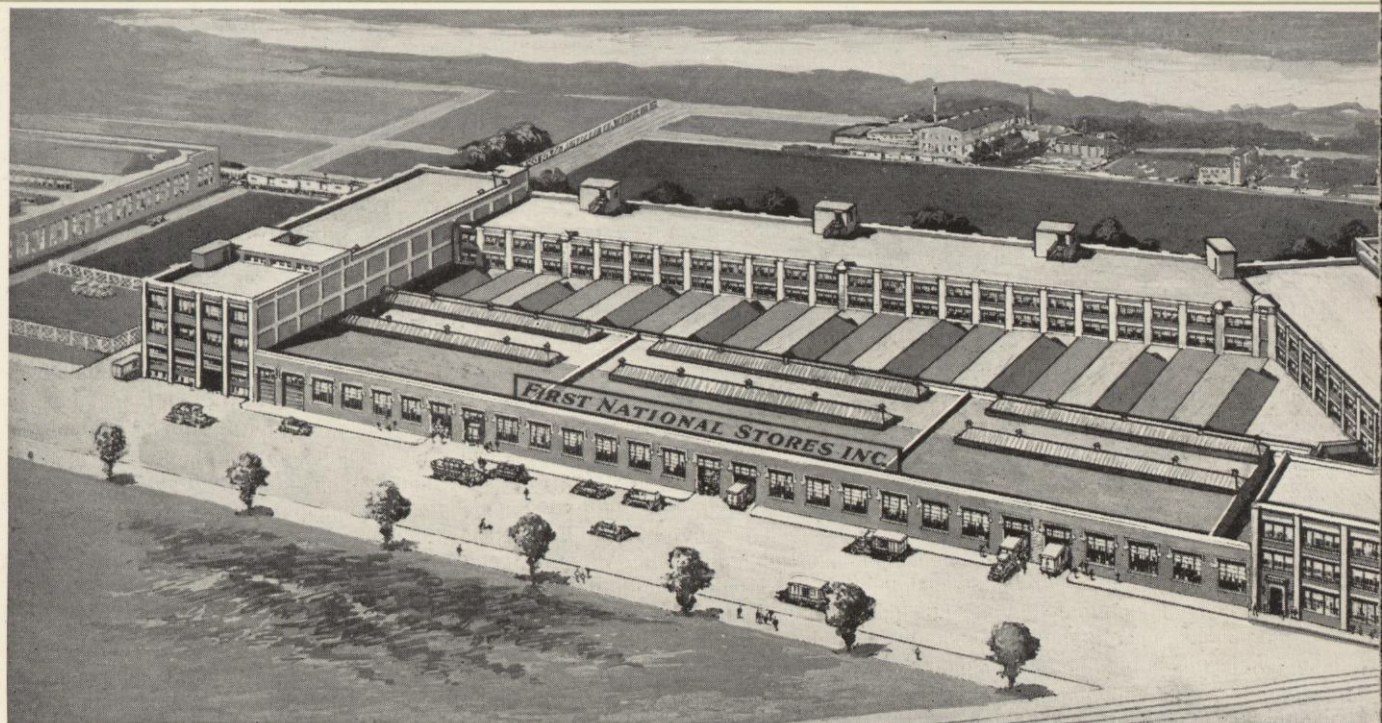
View of Rep Stores and Centra



Exterior View of combination Grocery,
Meat, Fish and Vegetable Market



Interior View of
Grocery and Vegetable
Store



THE GREAT CENTRAL BASE OF FIRST NA

In its eighteen acres of floor space are housed distribution facili
company's manufacturing and packaging activities. Other bases

AL STORES INC.

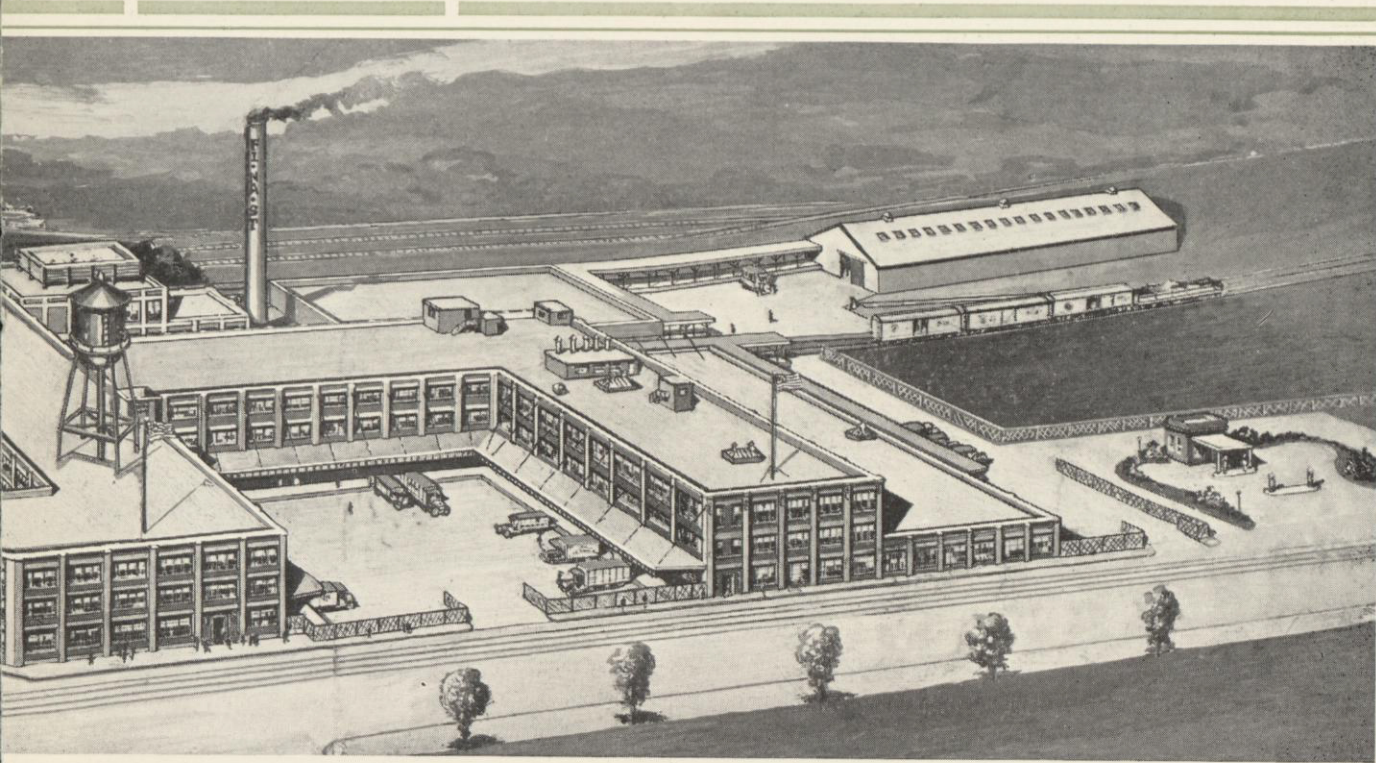
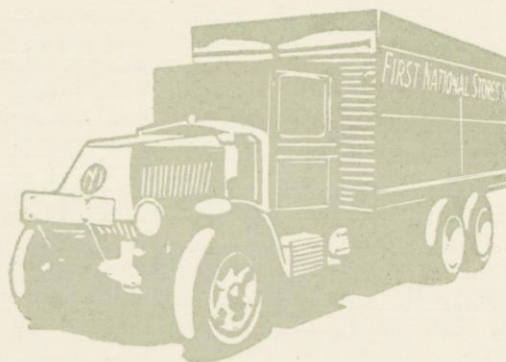
representative
of the great
Base



Interior View of combination Grocery,
Meat, Fish and Vegetable Market



Exterior View of
Grocery and Vegetable
Store



ATIONAL STORES INC., SOMERVILLE, MASS.

ties for more than 1700 of the company's stores and all of the
at East Hartford, Conn., Bridgeport, Conn., and Providence, R. I.

STORES AND BASES OF YOUR COMPANY

Stores and Markets

The stores of your Company are well maintained — remodeling and other improvements are made whenever desirable. The modern and large combination markets with grocery, meat, fish, fruit and vegetable departments are practically and attractively equipped, and are invariably located at prominent trade centers.

YOUR COMPANY'S BASES

SOMERVILLE,
MASSACHUSETTS.

PROVIDENCE,
RHODE ISLAND.

EAST HARTFORD,
CONNECTICUT.

BRIDGEPORT,
CONNECTICUT.

The four distributing bases of your Company, all well situated, well planned and economically operated, have a distinct and favorable bearing upon net earnings.

THE SOMERVILLE BASE

The principal base is in Somerville, Massachusetts, and it contains:

General and Executive Offices
Grocery Warehouse
Meat Warehouse
Produce Warehouse
Manufacturing Department for
Grocery Products

Manufacturing Department for
Meat Products
Beverage Manufacturing Plant
Bread Bakery
Cake Bakery
Laundry

Printing Plant
Reclamation or Salvage Shed
Garage and Truck Repair Shop
Gasoline Station
Cafeteria
Laboratory

In this great central base, serving more than 1700 of your Company's stores and housing all of your Company's manufacturing and packaging activities, there have been some necessary changes in the past fiscal year. The addition to the Produce Warehouse and extension of the refrigerating and heating facilities have been completed. Another important equipment change has been the conversion of the large Bread Ovens in the Bakery from the use of electricity as fuel to the use of low-grade fuel oil. This change will result in substantial savings.

All manufacturing activities have been vigorously carried on during the past year — new products having been added wherever possible and meat processing has been developed to the limit of the present plant capacity. Although as presently constructed this great Somerville base contains 778,758 square feet or nearly 18 acres of floor space, some departments have inadequate space and additional facilities will be provided at some future date.

In all departments research and scientific planning are being constantly applied to the end of establishing the most economical handling methods and to insure low cost of distribution from producer to consumer.

YOUR COMPANY'S OTHER BASES

Smaller yet similar and efficiently operated bases are situated in:—

East Hartford, Connecticut — where the group includes a Grocery Warehouse, Produce Warehouse, Bread Bakery and a Cake Bakery. Late in 1932, to meet the demands of the growing business the capacity of the Produce Plant was nearly doubled by new construction.

Bridgeport, Connecticut — A Grocery Warehouse.

Providence, Rhode Island — where the group includes a Grocery Warehouse, Produce Warehouse and a Bread Bakery.



Representative private brand products of the manufacturing departments of FIRST NATIONAL STORES Inc.

FIRST NATIONAL STORES INC.

Comparative Balance Sheets — April 1, 1933 and April 2, 1932

ASSETS			
	April 1, 1933	April 2, 1932	Increase *Decrease
CURRENT ASSETS:			
Cash in banks and on hand (after deducting dividends paid April 1st)	\$2,655,028.75	\$2,630,055.72	\$24,973.03
U. S. Government securities	2,739,683.07	2,147,511.73	592,171.34
Accounts receivable, less reserve	566,025.57	479,580.17	86,445.40
Accounts receivable, officers and employees	7,655.68	10,304.78	*2,649.10
Inventories of merchandise, materials and supplies on hand and in transit, at cost or market, whichever lower	8,637,741.55	8,526,796.64	110,944.91
Total current assets	<u>\$14,606,134.62</u>	<u>\$13,794,249.04</u>	<u>\$811,885.58</u>
INVESTMENTS, ETC.:			
First National Stores Inc.			
Common stock at book value — 15,335 shares at April 1, 1933	\$765,549.38	\$792,637.08	*\$27,087.70
First preferred stock at cost — 1,576 shares at April 1, 1933	167,532.55	254,521.02	*86,988.47
First mortgage 5% sinking fund gold bonds at cost . . . . .	.....	3,000.00	*3,000.00
Pipestone Produce Company — wholly owned creamery subsidiary — at cost	167,333.04	167,333.04	.....
Deposits in closed banks, less reserve	133,847.85	63,912.16	69,935.69
Miscellaneous securities and advances (including R. E. Cobb Company—partly owned subsidiary)	224,071.99	242,231.32	*18,159.33
Total investments, etc.	<u>\$1,458,334.81</u>	<u>\$1,523,634.62</u>	<u>*\$65,299.81</u>
DEFERRED CHARGES:			
Prepaid insurance and expenses	\$458,485.48	\$415,692.16	\$42,793.32
Unamortized bond discount and expense . . . . .	.....	25,578.56	*25,578.56
Total deferred charges	<u>\$458,485.48</u>	<u>\$441,270.72</u>	<u>\$17,214.76</u>
FIXED ASSETS:			
Land and buildings owned	\$6,019,529.79	\$5,827,455.37	\$192,074.42
Less — Reserve for depreciation	677,414.24	531,347.21	146,067.03
|| || |	<u>\$5,342,115.55</u>	<u>\$5,296,108.16</u>	<u>\$46,007.39</u>
Store fixtures, leased property improvements, machinery and equipment	\$10,173,023.01	\$9,576,036.67	\$596,986.34
Automobiles	582,631.40	556,398.16	26,233.24
|| || || ||	<u>\$10,755,654.41</u>	<u>\$10,132,434.83</u>	<u>\$623,219.58</u>
Less — Reserve for depreciation	3,765,217.57	3,189,935.14	575,282.43
|| || || ||	<u>\$6,990,436.84</u>	<u>\$6,942,499.69</u>	<u>\$47,937.15</u>
Total fixed assets	<u>\$12,332,552.39</u>	<u>\$12,238,607.85</u>	<u>\$93,944.54</u>
GOODWILL	\$1.00	\$1.00	.....
	<u>\$28,855,508.30</u>	<u>\$27,997,763.23</u>	<u>\$857,745.07</u>

FIRST NATIONAL STORES INC.
Comparative Balance Sheets — April 1, 1933 and April 2, 1932

LIABILITIES			
	April 1, 1933	April 2, 1932	Increase *Decrease
CURRENT LIABILITIES:			
Acceptances payable under letters of credit	\$123,470.02	\$152,953.28	*\$29,483.26
Note payable	50,000.00	.....	50,000.00
Accounts payable	2,834,633.46	2,508,870.80	325,762.66
Employees' investment certificates	500,875.00	862,805.00	*361,930.00
Provision for federal taxes	702,435.84	751,391.07	*48,955.23
Total current liabilities	<u>\$4,211,414.32</u>	<u>\$4,276,020.15</u>	<u>*\$64,605.83</u>
FUNDED DEBT:			
First mortgage 5% sinking fund gold bonds due 1952 — called for redemption April 1, 1933 and cash therefor deposited with the Trustee . . . . .	.....	\$928,000.00	*\$928,000.00
RESERVES:			
For contingencies, less appropriated as a reserve against deposits in closed banks, \$50,000	\$334,600.58	\$384,600.58	*\$50,000.00
For sinking fund preferred stocks	1,140,570.00	929,570.00	211,000.00
Miscellaneous	137,011.84	90,822.93	46,188.91
Total reserves	<u>\$1,612,182.42</u>	<u>\$1,404,993.51</u>	<u>\$207,188.91</u>
CAPITAL STOCK:			
7% first preferred:			
Authorized and issued or held for exchange for 8% preferred — 50,000 shares, par value \$100 each	\$5,000,000.00	\$5,000,000.00	.....
Common:			
Authorized—1,000,000 shares without par value Issued — 827,634 shares	6,977,422.07	6,977,422.07	.....
Total capital stock	<u>\$11,977,422.07</u>	<u>\$11,977,422.07</u>	<u>.....</u>
EARNED SURPLUS	<u>\$11,054,489.49</u>	<u>\$9,411,327.50</u>	<u>\$1,643,161.99</u>
	<u>\$28,855,508.30</u>	<u>\$27,997,763.23</u>	<u>\$857,745.07</u>

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have made an examination of the accounts of First National Stores Inc. for the fiscal years ending April 1, 1933 and April 2, 1932 and, in our opinion, the above comparative balance sheets and accompanying statement of earnings and surplus account have been correctly prepared therefrom and set forth the financial position of the company at April 1, 1933 and April 2, 1932 and the results of operations for the fiscal year ending April 1, 1933.

Boston, Massachusetts
May 19, 1933

PRICE, WATERHOUSE & CO.

FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS — FISCAL YEAR ENDING APRIL 1, 1933

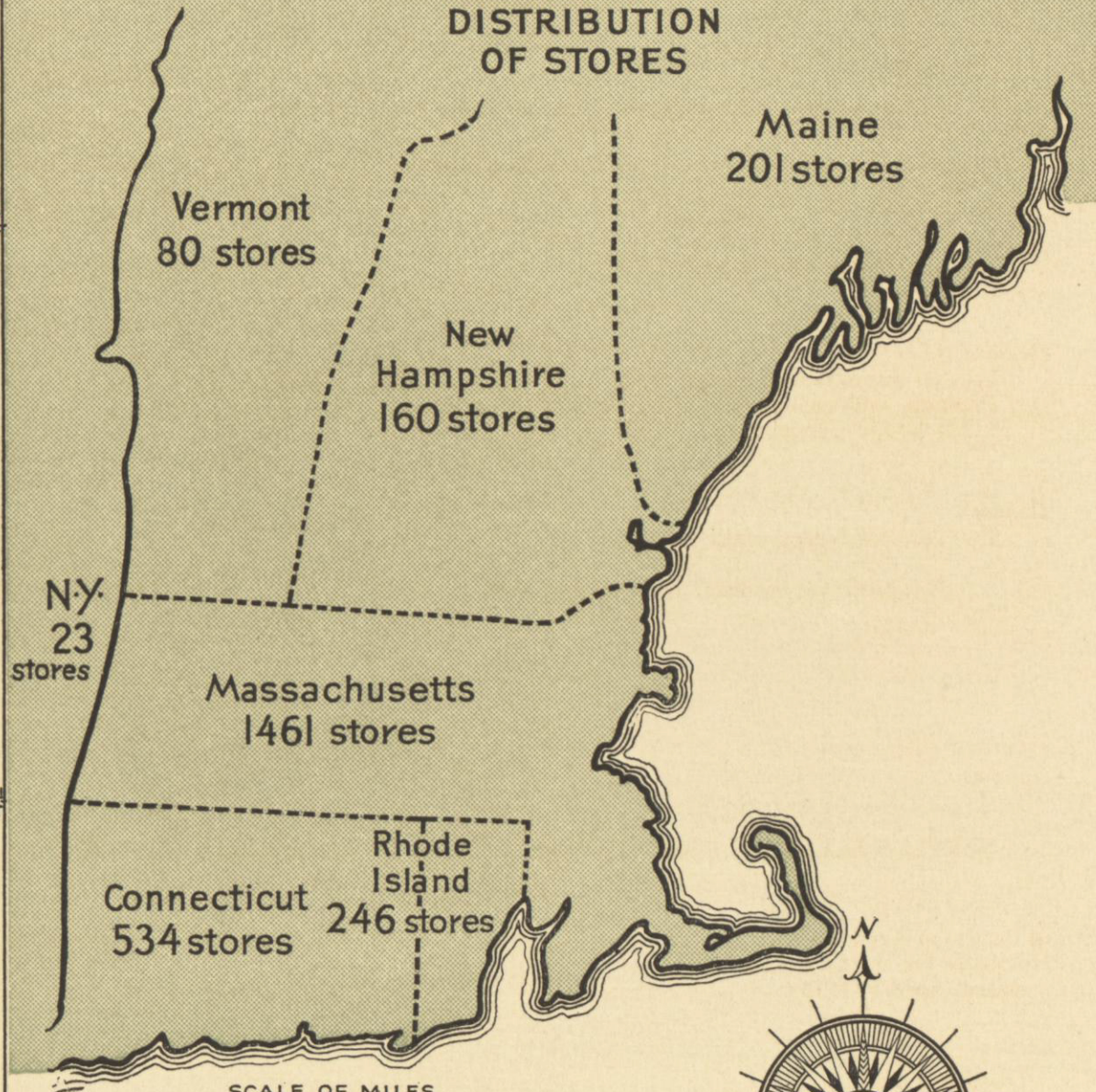
Sales		\$100,892,947.36
<i>Less:</i>		
Cost of sales, expenses, interest and other charges (net)		94,720,565.00
		<u>\$6,172,382.36</u>
<i>Deduct:</i>		
Depreciation on fixed assets		1,014,511.49
		<u>\$5,157,870.87</u>
<i>Deduct:</i>		
Loss on disposition of capital assets	\$168,383.76	
Premium and unamortized discount on first mortgage		
5% bonds redeemed	59,299.64	227,683.40
		<u>\$4,930,187.47</u>
<i>Deduct:</i>		
Provision for federal taxes		710,088.38
		<u>\$4,220,099.09</u>
Net profit for the fiscal year ending April 1, 1933		\$4,220,099.09

SURPLUS ACCOUNT FOR THE FISCAL YEAR ENDING APRIL 1, 1933

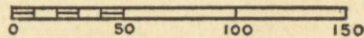
Earned surplus at April 2, 1932		\$9,411,327.50
Net profit for the fiscal year		
ending April 1, 1933	\$4,220,099.09	
<i>Less:</i>		
Dividends paid:		
Preferred stock	\$336,159.60	
Common stock	2,029,777.50	2,365,937.10
		<u>\$1,854,161.99</u>
Balance after dividends		211,000.00
Provision for sinking fund 7% first preferred stock		<u>1,643,161.99</u>
Balance added to surplus		\$11,054,489.49
Earned surplus at April 1, 1933		<u><u>\$11,054,489.49</u></u>

FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION OF STORES



SCALE OF MILES



**Total Number
of Stores**
as of April 1, 1933
2705

